

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended June 30, 2022 and 2021

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**MANAGEMENT'S COMMENTS ON UNAUDITED
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Covalon Technologies Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

Expressed in Canadian Dollars

	June 30, 2022	September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	\$14,035,183	\$22,946,923
Cash in escrow (Note 14)	2,577,200	2,548,200
Accounts receivable	4,424,865	6,395,547
Inventories	4,958,203	4,702,201
Prepaid expenses	2,757,951	845,451
Total current assets	28,753,402	37,438,322
Non-current assets		
Restricted cash	36,876	137,061
Property, plant and equipment	1,453,089	1,256,594
Intangible assets	893,685	897,865
Right-of-use assets	885,802	852,262
Total non-current assets	3,269,452	3,143,782
Total assets	\$32,022,854	\$40,582,104
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$1,957,978	\$4,039,607
Lease liabilities (Note 4)	573,784	541,378
Deferred revenue	330,995	414,649
Total current liabilities	2,862,757	4,995,634
Non-current liabilities		
Deferred revenue	77,316	162,448
Lease liabilities (Note 4)	1,675,806	2,049,495
Total non-current liabilities	1,753,122	2,211,943
Total liabilities	4,615,879	7,207,577
Shareholders' equity		
Share capital (Note 5)	44,148,662	44,676,999
Contributed surplus	11,350,005	11,833,354
Foreign exchange translation reserve	1,737,792	1,106,246
Accumulated deficit	(29,829,484)	(24,242,072)
Total shareholders' equity	27,406,975	33,374,527
Total liabilities and shareholders' equity	\$32,022,854	\$40,582,104

Subsequent Event (Note 14)

On behalf of the Board:

(signed) "Abe Schwartz"

Director

(signed) "Brian Pedlar"

Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(LOSS) (UNAUDITED)

Expressed in Canadian Dollars

	Three months ended June 30,		Nine months ended June 30,	
	2022	2021	2022	2021
Revenue				
Product	\$4,125,650	\$5,674,004	\$11,599,140	\$11,623,110
Development and consulting services	364,733	312,102	986,424	1,168,997
Licensing and royalty fees	35,623	48,268	170,621	158,614
Total revenue	4,526,006	6,034,374	12,756,185	12,950,721
Cost of sales	2,378,276	2,786,874	6,574,017	6,319,487
Gross profit before operating expenses	2,147,730	3,247,500	6,182,168	6,631,234
Operating expenses				
Operations	586,071	231,772	1,472,250	806,158
Research and development activities	288,882	295,716	846,530	840,892
Sales, marketing and agency fees	1,580,128	555,536	4,316,515	1,621,888
General and administrative	1,269,873	1,343,662	4,643,373	3,667,101
	3,724,954	2,426,686	11,278,668	6,936,039
Finance expenses	31,376	105,769	81,617	301,475
Net income (loss) from continuing operations	(1,608,600)	\$ 715,045	(5,178,117)	\$(606,280)
Net income (loss) from discontinued operations	-	342,886	(409,295)	1,713,592
Net income (loss)	\$(1,608,600)	\$1,057,931	\$(5,587,412)	\$1,107,312
Other comprehensive income (loss)				
Amount that may be reclassified to profit or loss				
Foreign currency translation adjustment - continued operations	995,098	(169,487)	631,546	(884,706)
Foreign currency translation adjustment - discontinued operations	-	(72,940)	-	(422,959)
Total comprehensive income (loss)	\$(613,502)	\$815,504	\$(4,955,866)	\$(200,353)
(Loss) per common share of continuing operations				
Basic earnings (loss) per share (Note 12)	\$(0.06)	\$0.03	\$(0.20)	\$(0.02)
Diluted earnings (loss) per share (Note 12)	\$(0.06)	\$0.03	\$(0.20)	\$(0.02)
Income (loss) per common share of discontinued operations				
Basic earnings (loss) per share (Note 12)	\$0.00	\$0.01	\$(0.02)	\$0.06
Diluted earnings (loss) per share (Note 12)	\$0.00	\$0.01	\$(0.02)	\$0.06
Income (loss) per common share				
Basic earnings (loss) per share (Note 12)	\$(0.06)	\$0.04	\$(0.22)	\$0.04
Diluted earnings (loss) per share (Note 12)	\$(0.06)	\$0.04	\$(0.22)	\$0.04

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

Expressed in Canadian Dollars

	Number of shares	Share capital	Contributed surplus	Accumulated deficit	Foreign exchange translation reserve	Total
Balance at October 1, 2020	25,818,677	\$44,607,119	\$11,652,765	\$(47,718,978)	\$565,772	\$9,106,678
Share-based payment expense	-	-	201,451	-	-	201,451
Net income for the period	-	-	-	1,107,312	-	1,107,312
Foreign currency translation adjustment	-	-	-	-	(1,307,665)	(1,307,665)
Balance at June 30, 2021	25,818,677	\$44,607,119	\$11,854,216	\$(46,611,666)	\$(741,893)	\$9,107,776
Balance at October 1, 2021	25,868,677	\$44,676,999	\$11,833,354	\$(24,242,072)	\$1,106,246	\$33,374,527
Share-based payment expense	-	-	126,988	-	-	126,988
Issuance of common shares	30,000	178,817	(112,817)	-	-	66,000
Buyback of common shares (Note 5)	(464,800)	(805,859)	(458,815)	-	-	(1,264,674)
Exercise of warrants	30,000	98,705	(38,705)	-	-	60,000
Net loss for the period	-	-	-	(5,587,412)	-	(5,587,412)
Foreign currency translation adjustment	-	-	-	-	631,546	631,546
Balance at June 30, 2022	25,463,877	\$44,148,662	\$11,350,005	\$(29,829,484)	\$1,737,792	\$27,406,975

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)

Expressed in Canadian Dollars

	Nine months ended June 30,	
	2022	2021
Cash flows from (used in) operating activities		
Net (loss) for the period from continuing operations	\$(5,178,117)	\$(606,280)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment	199,932	244,132
Amortization of intangible assets	114,471	108,264
Depreciation - right of use assets	173,660	307,886
Share-based payment expense (Note 6)	126,988	147,024
Interest expense and accretion	81,617	323,136
Cash used in operating activities before change in non-cash working capital balances:	(4,481,449)	524,162
Net changes in non-cash working capital balances:		
Accounts receivable	2,035,811	(3,152,091)
Prepaid expenses	(1,875,391)	(203,686)
Inventories	(163,512)	1,618,004
Accounts payable and accrued liabilities	(2,047,763)	123,214
Deferred revenue	1,872	(348,073)
Total net changes in non-cash working capital balances	(2,048,983)	(1,962,632)
Total cash flows from (used in) operating activities	(6,530,432)	(1,438,470)
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(395,888)	(142,296)
Purchase of intangible assets	(299,640)	-
Disposal of property, plant and equipment	101,668	-
Restricted cash	100,185	(2,358)
Total cash flows used in investing activities	(493,675)	(144,654)
Cash flows from (used in) financing activities		
Interest paid	-	(236,454)
Repayment of debt	-	(900,000)
Proceeds from debt	-	1,000,000
Issuance of shares	66,000	-
Exercise of warrants	60,000	-
Buyback of common shares (Note 5)	(1,191,334)	-
Payment of lease liabilities (Note 4)	(400,619)	(303,660)
Total cash flows used in financing activities	(1,465,953)	(440,114)
Foreign exchange rate changes on cash	60,742	(202,507)
Total cash flows during the period of continuing operations	(8,429,318)	(2,225,745)
Total cash flows during the period of discontinued operations	(482,422)	2,247,890
Total cash flows during the period	(8,911,740)	22,145
Cash and cash equivalents, beginning of the period	\$22,946,923	\$3,506,991
Cash and cash equivalents, end of the period	\$14,035,183	\$3,529,136
Supplementary Information		
Buyback of common shares in accounts payable and accrued liabilities, end of period	73,340	-

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

1. CORPORATE INFORMATION

Covalon Technologies Ltd. (“the Company”) is incorporated under the laws of Ontario and is engaged in the business of researching, developing, manufacturing, and marketing of patent-protected medical products that improve patient outcomes and save lives in the areas of infection management, advanced wound care, and surgical procedures. The unaudited condensed consolidated interim financial statements of Covalon Technologies Ltd. for the three and nine months ended June 30, 2022 comprise the results of the Company and its wholly owned subsidiaries. The Company leverages its patented medical technology platforms and expertise in two ways: (i) by developing products that are sold under the Company’s name; and (ii) by developing and commercializing medical products for other medical companies under development and license contracts. The Company has received regulatory approval on numerous products and leverages contract manufacturers to make its products and distribution contracts to sell its commercialized products to medical customers. The Company generates its revenues through development contracts, licensing agreements, distribution contracts, and sales of products.

On July 29, 2021, the Company sold its AquaGuard product line and all its interest in two subsidiaries (see note 3).

The Company is listed on the TSX Venture Exchange, having the symbol COV. The Company also trades on the OTCQX Best Market, having the symbol of CVALF.

The address of the Company’s corporate office and principal place of business is 1660 Tech Avenue, Unit 5, Mississauga, Ontario, Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The Company’s unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements are presented in Canadian dollars and should be read in conjunction with the Company’s annual financial statements for the year ended September 30, 2021, which were prepared in accordance with IFRS.

The accounting policies adopted are consistent with those of the previous financial year end.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 26, 2022.

Accounting standards issued but not yet adopted

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The standard is effective for periods beginning on or after January 1, 2023, and the Company continues to evaluate the impact of applying the new standard.

COVID-19

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. In response to the outbreak, governmental authorities

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in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The governmental responses have caused material disruption to business globally, economic slowdowns, and shifts in economic markets. The significant uncertainty related to the virus and the governmental responses has negatively impacted the Company's suppliers, as well as customers and their demand for our products and services.

Included in continuing, and discontinued, operations for the nine months ended June 30, 2022, the Company received funding of \$nil (2021 - \$535,275) under the Canadian Emergency Wage Subsidy Program ("CEWS"). The Company also received funding of \$nil (2021 - \$56,963) from other government subsidy programs for the nine months ended June 30, 2022.

During the three months ended March 31, 2021, the Company applied for and received \$1,103,860 USD in a second draw of the United States Paycheck Protection Program loan (the "Loan") from the US Small Business Administration under the US Paycheck Protection Program. During the nine months ended June 30, 2021, the Company recorded \$1,441,544 in relation to the PPP loan, net against the related operating expenses. The Loan was forgiven during the three months ended September 30, 2021 as certain conditions were met (including the funds being used for eligible payroll and rent expenses during the eligibility period, and completion of a loan forgiveness application).

Operationally, the Company has been negatively impacted by the COVID-19 pandemic and the efforts to mitigate the pandemic, as have many of the Company's employees, customers, and vendors, regardless of geographic location. The Company's direct sales staff were limited in their ability to call on customers in the United States. There have also been increased costs associated with shipping products, and a slow-down in receiving regulatory approvals. As a result of this uncertainty there is a higher level of estimation uncertainty as it relates to the assessment provisions for inventory and receivables and general future cash flows. Our distribution relationships with several companies in North America and internationally have been impacted due to the material disruption to business globally, economic slowdowns, and shifts in economic markets caused by governmental responses to the COVID-19 pandemic. The Company's supply chains continue to be adversely affected as a result of COVID-19. Demand for some of the Company's products also temporarily decreased as facilities adjusted to patient demand and procedure types in the United States. The Company has not experienced material payment delays or defaults from customers as a result of the COVID-19 pandemic and its impact on their respective businesses. The Company continues to evaluate the current and potential impact of the COVID-19 pandemic on its business, affairs, operations, financial condition, liquidity, availability of credit, and results of operations.

3. AQUAGUARD SALE

On July 29, 2021, the Company sold the AquaGuard product line to TIDI Products, LLC ("TIDI"), an arm's length party, for \$37,837,852 including post-closing adjustments related to actual amounts of inventory and indebtedness. The financial information related to the AquaGuard product line is reported in the current and comparative periods as discontinued operations.

The financial performance information presented for the three and nine months ended June 30, 2022, and June 30, 2021, is summarized below and is included in the condensed consolidated interim statements of operations and comprehensive income (loss) as net income (loss) from discontinued operations:

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

	3 months ended June 30,		9 months ended June 30,	
	2022	2021	2022	2021
Revenue	-	\$2,781,143	\$483,010	\$8,594,468
Cost of sales and operating expenses	-	2,420,671	874,306	6,822,650
Finance expenses	-	17,586	17,999	58,226
Net income (loss) from discontinued operations	-	342,886	(409,295)	1,713,592

Disclosures with respect to the consolidated statements of cash flows for the nine months ended June 30, 2022 are as follows:

	9 months ended June 30,	
	2022	2021
Cash flows from operating activities	(384,740)	2,410,664
Cash flows from investing activities	(12,623)	2,986
Cash flows from financing activities	(85,059)	(165,760)
Total cash flow	(482,422)	2,247,890

4. LEASE LIABILITIES

Lease liabilities are comprised of the following amounts:

	Lease liabilities (\$)
Balance at October 1, 2021	2,590,873
Interest	85,163
Payments	(485,678)
Foreign exchange	59,232
Balance at June 30, 2022	2,249,590
Less: Current portion	573,784
Long-term portion	1,675,806

Following the impairment of the right of use asset related to the Company's Seattle lease agreement at September 30, 2021, an onerous contract liability was recognized in accounts payable and accrued liabilities related to future variable lease payments that are not included in the lease liability. At June 30, 2022 the amount of this liability was \$306,876 (September 30, 2021 - \$352,089).

5. SHAREHOLDERS' EQUITY

Common Shares

The Company is authorized to issue an unlimited number of common shares with no par value. All shares are fully paid.

On May 25, 2022, the Company announced that it had filed its intention to make a normal course issuer bid ("NCIB") for its common shares with the TSX Venture Exchange for up to 1,296,433 shares, representing 5% of

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Expressed in Canadian Dollars

the issued and outstanding common shares. Repurchases under the NCIB program were approved by the TSX Venture Exchange and commenced on June 2, 2022 and are authorized to continue until the earlier of: (a) May 31, 2023; and (b) the date in which the maximum number of common shares purchasable under the NCIB have been acquired by the Company. All common shares that are repurchased by the Company under the NCIB program will be cancelled, with any excess or deficiency as compared to the weighted average cost of common shares, being charged to contributed surplus.

Under the NCIB, the Company is limited in making daily purchases of up to 8,000 common shares.

On June 29, 2022, in connection with the NCIB, the Company entered into an automatic share purchase plan (“ASPP”) with a designated broker. The ASPP is intended to allow for the purchase of the Company’s common shares under the NCIB at times when the Company would ordinarily not be permitted to purchase its common share due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, prior to entering into a blackout period, the Company may instruct the designated broker to make purchases under the NCIB in accordance with the terms of the ASPP. Such purchases will be made by the designated broker in its sole discretion based on parameters established by the Company prior to the blackout period in accordance with the rules of the TSX Venture Exchange, applicable securities laws and the terms of the ASPP. In accordance with the terms of the ASPP, the Company is able to terminate any instructions given to the designated broker with minimal notice.

As at June 30, 2022, the Company had purchased 464,800 of its common shares under the NCIB. Subsequent to June 30, 2022, the Company had purchased an additional 109,700 of its common shares under the NCIB.

Warrants

The following is a summary of all warrants:

	Number of Warrants	Weighted average exercise Price	Weighted Average Expiry (years)
Balance at September 30, 2021	2,950,000	\$2.14	3.10
Exercised during the period	30,000	\$2.00	
Balance at June 30, 2022	2,920,000	\$2.14	2.35

6. SHARE-BASED PAYMENTS

Option Plan Details

The Company has a Stock Option Plan (“the Plan”) under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees, or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. Unless the board of directors decides otherwise, options granted under the plan will vest as follows: 34% of the options vest in one year, with a further 33% vesting in each of the subsequent two years on the anniversary of the initial grant date.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

The following is a summary of changes in stock options from October 1, 2021 to June 30, 2022:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Forfeited/ Expired	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
08-Feb-17	08-Feb-22	\$2.20	133,333	-	(133,333)	-	-	-	-
20-Jun-17	20-Jun-22	\$2.47	343,333	-	(343,333)	-	-	-	-
25-Oct-17	25-Oct-22	\$3.80	60,000	-	-	60,000	60,000	-	0.32
21-Dec-17	21-Dec-22	\$4.65	97,500	-	(10,000)	87,500	87,500	-	0.48
24-Jan-18	24-Jan-23	\$6.02	60,000	-	-	60,000	60,000	-	0.57
27-Sep-18	27-Sep-23	\$8.50	97,500	-	-	97,500	97,500	-	1.24
22-Dec-18	22-Dec-23	\$4.28	226,670	-	(77,504)	149,166	149,166	-	1.48
15-Mar-19	15-Mar-24	\$5.03	120,100	-	(20,100)	100,000	100,000	-	1.71
28-Mar-22	28-Mar-27	\$2.19	-	507,500	-	507,500	-	507,500	4.74
			1,138,436	507,500	(584,270)	1,061,666	554,166	507,500	2.84
Weighted Average Exercise Price			\$4.03	\$2.19	\$2.77	\$3.84	\$5.35	\$2.19	

Granting of Share Options

On March 28, 2022, 507,500 options with a weighted average fair value of \$1.42 were granted. The trading price of the stock at the time of the grant was \$2.19. The fair market value of options granted was determined using the Black-Scholes valuation model with the following implicit assumptions: average risk-free rate of interest – 1.73%, dividend rate – nil, volatility – 77.90% and an expected life of 3.5 years. The estimated forfeiture rate is 12.94%.

Share Based Payment Expense

Total expenses arising from share-based payment transactions recognized during the three and nine months ended June 30, 2022, for continuing operations, as part of employee benefit expense were \$87,737 (2021 – (\$16,537)) and \$126,988 (2021 - \$147,024), respectively.

Total expenses arising from share-based payment transactions recognized during the three and nine months ended June 30, 2022, for discontinued operations, as part of employee benefit expense was \$nil (2021 - \$13,426) and \$6,556 (2021 - \$54,427), respectively.

7. FINANCIAL RISK MANAGEMENT

The following is a discussion of market, credit, and liquidity risks and related mitigation strategies that have been identified.

Credit Risk

The Company is exposed to credit risk associated with its cash and cash equivalents and accounts receivable. The risk is reduced by having accounts receivables insured or obtaining letters of credit when the Company determines that it is warranted. The Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss for all receivables. Receivables have been grouped based on shared

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Expressed in Canadian Dollars

credit risk characteristics and the days outstanding to measure the expected credit loss. On this basis the loss allowance at June 30, 2022 and September 30, 2021 is nominal.

Accounts receivable are written off when there is no reasonable expectation of recovery which may be supported by failure to make contractual payments for more than 180 days as well as other factors.

Accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks by dealing with creditworthy customers; however, due to the limited number of potential customers in each market this is not always possible. As at June 30, 2022, three customers accounted for 71% (September 30, 2021 – three customers for 67%) of the accounts receivable balance. These customers, who are distributors and strategic partners of the Company, represent a large portion of the Company's sales. Credit risk exposure is mitigated by strong credit granting policies, the use of Letters of Credit, and due diligence procedures for new customers.

The aging of accounts receivable is as follows:

	June 30, 2022	September 30, 2021
Current	\$3,640,536	\$5,962,535
30-60 days past due	775,508	388,241
Over 60 days past due	8,821	44,771
	<u>4,424,865</u>	<u>6,395,547</u>

Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents. The Company believes that interest rate risk is low due to market based variable interest rates.

Currency Risk

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Canadian dollars, was as follows:

	<u>June 30, 2022</u>				<u>September 30, 2021</u>			
	<u>Canadian</u>	<u>USD</u>	<u>GBP</u>	<u>Total</u>	<u>CAD</u>	<u>USD</u>	<u>GBP</u>	<u>Total</u>
Cash and cash equivalents	\$381,927	\$13,421,600	\$231,656	\$14,035,183	\$135,807	\$22,783,541	\$27,575	\$22,946,923
Accounts Receivable	\$774	\$4,439,643	(\$15,552)	\$4,424,865	\$6,181	\$6,138,265	\$251,101	\$6,395,547
Restricted cash and cash held in escrow	\$36,876	\$2,577,200	-	\$2,614,076	\$137,061	\$2,548,200	-	\$2,685,261
Accounts payable and accrued liabilities	\$1,230,057	\$667,709	\$60,212	\$1,957,978	\$292,110	\$3,581,504	\$165,993	\$4,039,607
Lease liabilities	\$895,578	\$1,354,012	-	\$2,249,590	\$1,046,758	\$1,544,115	-	\$2,590,873

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Expressed in Canadian Dollars

If exchange rates were to change by 5% at June 30, 2022 total comprehensive income (loss) would change by \$928,631 (September 30, 2021 - \$1,322,853).

Fair Value

The fair values of cash and cash equivalents, cash in escrow, accounts receivable, restricted cash, accounts payable and accrued liabilities, acquisition note payable, and lease liabilities approximate their carrying values, due to their relatively short periods to maturity.

Liquidity risk

The Company continually monitors working capital to ensure sufficient cash is available to meet operational and capital expenditure requirements. As at June 30, 2022, the Company has contractual obligations related to lease liabilities and accounts payable and accrued liabilities that are due as reflected in the following table:

	Carrying amount (\$)	Future cash flows (\$)	Less than 1 year (\$)	Between 1 and 5 years (\$)	Greater than 5 years (\$)
Accounts payable and accrued liabilities	\$1,957,978	\$1,957,978	\$1,957,978	-	-
Lease liabilities	\$2,249,590	\$2,397,446	\$664,458	\$1,732,988	-
Total	\$4,207,568	\$4,355,424	\$2,622,436	\$1,732,988	-

8. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity comprising share capital, contributed surplus, and foreign exchange translation reserve accumulated deficit. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide services to its customers and returns to its shareholders. The capital at June 30, 2022 is \$27,406,975 (September 30, 2021 – \$33,374,527).

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

9. RELATED PARTY TRANSACTIONS

Key management personnel include the Company's directors and senior management team. These individuals are responsible for planning, directing, and controlling the activities of an entity. Key management personnel compensation comprised:

	Three months ended June 30,		Nine months ended June 30,	
	2022	2021	2022	2021
Compensation and short-term employee benefits	\$294,456	\$239,442	\$813,350	\$718,326
Share based payment expense	25,939	24,902	38,420	87,308
	320,395	264,344	851,770	541,290

During the year end September 30, 2013, a non-interest bearing loan of \$50,000 was made to a key employee. As of June 30, 2022, \$10,000 of this loan remained outstanding.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

10. EXPENSES BY NATURE

The consolidated statements of operations and comprehensive income (loss) include the following expenses by nature:

	Three months ended June 30,		Nine months ended June 30,	
	2022	2021	2022	2021
Inventoried materials	\$2,322,327	\$2,859,918	\$6,422,242	\$5,863,232
Wages, benefits, consulting fees, director compensation	2,764,311	1,561,824	8,256,747	4,749,573
Government subsidies	-	(282,400)	-	(793,152)
Share based payments	87,737	(16,537)	126,988	147,024
Depreciation and amortization	171,450	227,478	488,063	660,282
Professional fees	205,602	509,354	833,399	1,137,190
Other expenses	551,803	353,923	1,725,246	1,491,377
Total	\$6,103,230	\$5,213,560	\$17,852,685	\$13,255,526

11. EARNINGS (LOSS) PER SHARE

The weighted average number of shares outstanding during the three and nine months ended June 30, 2022 was 25,855,651 and 25,884,115, respectively (June 30, 2021 – 25,818,677 and 25,818,677).

Details of weighted average dilutive securities for the respective periods are as follows:

Weighted average dilutive securities	Three months ended June 30		Nine Months Ended June 30	
	2022	2021	2022	2021
Stock options	10,130	12,939	10,705	7,630
Warrants	285,563	-	283,346	-
Total weighted average dilutive shares	295,693	12,939	294,051	7,630

12. SEGMENT REPORTING

For the three months ended June 30, 2022, the Company generated continuing operations revenue of \$2,547,452 (2021 – \$4,084,965) in the US, \$1,621,585 (2021 – \$1,020,825) in the Middle East, \$20,459 (2021 – \$183,729) in Canada, and \$336,510 (2021 – \$744,855) in the rest of the world.

For the nine months ended June 30, 2022, the Company generated continuing operations revenue of \$8,600,900 (2021 - \$8,085,381) in the US, \$2,690,166 (2021 – \$2,901,971) in the Middle East, \$52,390 (2021 – \$221,992) in Canada, and \$1,412,729 (2021 – \$1,741,377) in the rest of the world.

As of June 30, 2022, the Company had \$2,824,187 (September 30, 2021 - \$2,652,698) of its property, plant, and equipment, right-of-use assets, and intangible assets located in Canada and \$408,389 (September 30, 2021 - \$354,023) in the USA.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

13. CONTINGENCIES AND COMMITMENTS

From time to time, the Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period that a loss becomes probable.

14. SUBSEQUENT EVENT

As part of the AquaGuard Sale, the purchase price included \$2,577,200 placed in escrow for indemnity claims which will be released 50% in 12 months following closing and the remaining 50% on September 30, 2022, assuming no claims. As of August 26, 2022, there have been no claims to date and on August 2, 2022, an amount of \$1,288,600 was released from escrow.